FLAHERTY KEYNOTE ADDRESS AT THE HEALTHCARE FINANCIAL MANAGEMENT ASSOCIATION (HFMA) 30th Annual Institute

LENGTH: 60 minutes, including questions and answers

THEME: Trends in the financing and delivery of health care and BCBSF and the hospital community's role in these developments.

GOALS:

- To raise awareness and increase understanding among the hospital community about alternative approaches to financing and delivery
- To raise awareness and increase understanding among the hospital community about alternative approaches to financing and delivery in Florida
- To increase perceptions among the hospital community that BCBSF is a competent organization at the forefront of new initiatives in health care financing and delivery in Florida
- To increase perceptions among the hospital community that BCBSF is committed to a continued close working relationship, even though our traditional roles are changing

Recommended Audio/Visual Support: Slides

The 30th Annual Institute
of the
Healthcare Financial Management Association
Florida Chapter

"Adaption to Changing Environment"

HFMA

September 12, 13, 14, 1984

Sheraton Sand Key Resort
Clearwater, Florida

National "G.L.D. Winner" 1984

I. INTRODUCTION

A. Appreciate the opportunity to be here

B. Through my work on the HCCB, have come to know many of you and am interested in opportunities to keep the communication channels open betwen us and strengthen the working relationship we've established.

C. In recent years, we've seen our environment change dramatically. Each of us is being impacted by legislative action, growing competition in the marketplace, the concerns among our customers over the cost of health care, and a blurring of the distinction between the financing and delivery of health care.

D. These changes are requiring some redefinition of our own roles and traditional working relationships.

E. In my remarks today, I'd like to discuss our evolving relationship and identify opportunities I see which are available for us to continue working together to manage the change in our environment.

SLIDE #1
BCBSF Logo

II. ENVIRONMENTAL ANALYSIS

Slide #2
Our Environment (see attachment)

A. Helpful to review forces driving changes as a framework for better understanding of our emerging roles.

SLIDE # 3

Employer Needs for Reduced Health Care Costs

- o Medical costs estimated at 10% of the GNP
- o Seeking a solution in HMOs and PPO's

B. Growing pressure from employers to reduce costs.

1. The current rise in medical costs, which is an estimated 10% of the GNP, is simply unacceptable to business.
2. Employers are urging broad solutions -- promoting HMOs and PPOs.

SLIDE #4

Additional trends in Cost Containment among Businesses

- o Higher co-pay and deductibles
- o Mandatory second surgical opinions
- o Pre-admission testing
- o Utilization review
- o Prospective hospital payments

3. Also supporting some specific solutions, such as:
   a) Higher co-payments and deductibles
   b) Mandatory second surgical opinion programs
   c) Pre-admission testing
   d) Strengthened utilization review, and
   e) Prospective hospital payments
4. Most recently, we are becoming involved in a move by a major automaker and organized labor to go beyond the solutions described above.
   a) They are seeking a nationwide system to deliver uniform health care benefits to their employees and membership with predictability and containment of their health care costs built in.

SLIDE # 5

Medicare's portion of Health Care Dollar (see attachment)

C. Intensified efforts by the federal government to reduce costs of Medicare -- paying 16.2 cents out of every health care dollar.

1. Solvency of Medicare program in question
2. Shift in policy from access to efficiency in health care
3. Prospectively determined reimbursement to hospitals based on DRGs implemented in '83
4. Increased activity this year to reduce further federal outlays for medical care.
   a) New provisions in the Deficit Reduction Act are projected to result in a cost savings of more than 63 billion dollars in the Medicare program

SLIDE # 6

Blurring between Financing and Delivery of Services (see attachment)

D. Distinction between delivery of health care services and financing is blurring -- competition for patients and marketshare - growing

III. MANAGING/INFLUENCING CHANGE

SLIDE # 7

To Grow and Prosper

- o Anticipate needs of marketplace
- o Respond to identified needs
- o Plan and invest for future
- o Produce better product at competitive price

A. Clearly face a challenge if we are to grow and prosper in the changing environment.

1. Must anticipate needs of the marketplace and be prepared to respond
2. Requires planning and investing for the future, constantly striving to produce a better product at a competitive price.

SLIDE #8
EMERGENCE OF HMO'S AND PPO'S . . . A RESPONSE TO MARKET DEMAND

B. Emergence of HMO's and PPO's . . . A Response to Market Demand

a) These options represent an essential element in the changes we believe are needed to make our health care system more responsive to Floridians' financial concerns. With multiple choice in the marketplace, people can seek out the care that gives them the most value for their health care dollar.

SLIDE # 9
Cost/value Diagram (see attachment)

SLIDE #10
SFGH

SLIDE #11
CHP

1. Progress of our two operational HMO's
   a) SFGH membership gain of over 33%
   b) CHP enrolled an additional 14,000 people, paid off an outstanding loan and had a financial gain in 1983.

SLIDE #12

Four-Year HMO strategy

- o Ten HMOs statewide
- o Accessible to 60% of Florida's residents
- o 25% of the HMO Market

2. Long-term HMO strategy

a) A new site for development in 1984 (Jacksonville); two planned for early 1985 (Orlando & Tampa/St. Pete)

b) By 1988, plan to have a minimum of ten throughout Florida

c) Accessible to 60% of the population

d) Target 25% of the HMO market by 1988

SLIDE #13

Initiation of PPO Network

- o Marketing in Duval and Dade counties
- o 17 service areas throughout Florida by mid 1985
- o Projected enrollment of 60,000 within first year

3. PPO Activity

a) Acceptance of HMO's is serving as a catalyst for evaluating the potential of another alternative delivery system: the Preferred Provider Organization (PPO).

b) Expect several Preferred Provider arrangements to be offered to employer groups soon in communities around the state.

1. We have started marketing in Duval and Dade counties
2. These two locations are part of a total of 17 service areas we hope to develop by mid 1985
3. Some of the criteria considered in the selection of these areas include: population
   number of hospitals
   scope of services
   community perceptions
   cost effectiveness, etc.
4. Projected enrollment of 60,000 within first year the network is operational

4. PPOs and HMOs are an integral element in our strategic plans for future growth and development
   a. They represent our recognition that in order to meet buyer demand, we must provide options in financing and delivery
   b. While these new initiatives are a major part of our strategic plans, they do not supplant our commitment to our traditional business lines.
      1. These lines account for 99 percent of our business and we expect to maintain and expand these as well.

IV. FUTURE RELATIONSHIPS BETWEEN BCBSF AND THE HOSPITALS OF FLORIDA

A. As each of us adapts to new market conditions we are both becoming more and more involved in the financing and delivery aspects of health care.
   1. This may well lead us into competition with one another in some areas.
   2. Anti-trust implications preclude us from business as usual, in which a representative group of hospitals negotiated a contract with us.

SLIDE # 14

BCBSF/HOSPITAL CONTRACT AGREEMENTS

A shared commitment to:

- o cost consciousness
- o quality consciousness
- o enhance community perceptions, and
- o provide wide scope of service

3. Increasingly, we will be negotiating contracts individually with one another based on a shared commitment to:
   - cost consciousness
   - quality consciousness
   - enhance community perceptions, and
   - provide wide scope of service

4. In my estimation, what will facilitate negotiations is your growing insight into and assessment of your hospital's fixed and variable costs.
5. While the competitive nature of our business is growing, I think it's clear that a strong need remains for us to work together closely in offering consumers these integrated financing and delivery systems.

SLIDE #15

REIMBURSEMENT TRENDS

IV. REIMBURSEMENT TRENDS

SLIDE #16

REIMBURSEMENT TRENDS

- o Transitional Stage
- o PCPP Status
- o Need for Hospital Input
- o Experimentation with payment plans

A. The basic reimbursement method that we created eight years ago, and which has existed between us since then is the Prospective Charge Payment Program (PCPP).

1. Its validity and viability are in question as a result of enactment of the Health Care Consumer Protection and Awareness Act and changing market conditions.
2. These circumstances necessitate that we design and negotiate a new contractual reimbursement program.
   a. We will be seeking input from the hospital community as to alternative reimbursement forms which may be appropriate.
3. Together, hope we can develop other forms of reimbursement . . . those which are reflective of the resources committed to the care of the patient, such as:
   a. Enhancements of DRG
   b. Capitation payment methods (as in N.D., Mass., Rochester, NY, etc.)
   c. Norms based on peer groupings
4. Whatever reimbursement form(s) we choose, it is likely to be modified as our industry continues to change at an accelerating pace.
5. Our challenge will be to adjust and initiate financing and delivery programs which reflect and respond to the changing health care needs of the residents of Florida.

B. Trends among other BCBS Plans.

1. If we examine BCBS Plans nationwide, because of the diversity of approaches, doubt that we could identify the one or the best hospital payment program that lies ahead.
   a) Several innovative programs are taking shape and may serve as models for the future.
   b) Historically, Plans in NE and Midwest, with large market share, have negotiated significant discount arrangements with providers. Plans in the South and Southwest, with less market penetration, tend to have paid on the basis of charges.
   c) Increasing competition among insurors is requiring Plans to assess their reimbursement relationships with providers and seek to negotiate the best arrangement they can for their customers

SLIDE # 17

REIMBURSEMENT TRENDS

- o Prospective Payment
- o Increased Predictability of cost
- o DRG-based payment of cost

2. In surveying the various payment plans, the majority are prospective types of payment which should allow buyers to better predict their costs for health care services.

3. There is currently impetus toward DRG based reimbursement programs -- particularly so in Florida, where so much hospital care is Medicare related.

SLIDE # 18

BCA TASK FORCE CONCLUSIONS

Outmoded Payment Practices

- o Uncontrolled billed charges
- o No process for limiting costs
- o No differentiation of Plan rates from hospital charges

4. Also indicative of possible payment trends are the conclusions of a special BCA reimbursement task force created in '82. The task force identified 3 Plan payment practices no longer considered acceptable:
   a) uncontrolled billed charges,
   b) no process for limiting costs being paid, and
   c) no differentiation of Plan rates from hospital charges

SLIDE # 19

STATE REGULATION AND ALL-PAYOR SYSTEMS

VI. STATE RATE REGULATION AND ALL-PAYOR SYSTEMS

A. Regulatory approaches likely will continue to be promoted, chiefly by those unable or unwilling to develop competitive payment options and those advocating a "quick fix" approach to cost containment.

1. It's significant to note that those state's which have an all-payor system are in jeopardy of losing their Medicare waiver (e.g. N.J., Mass., Maryland).
   a. The rate of increase in hospital admissions is dropping more dramatically in non-waiver states.

B. Through my participation on the Governor's Task Force and my role on the HCCB, you probably know that I advocate the competitive model over regulation.

1. Under rate regulation, even where applied as a safety net, you tend to find that what is intended as a ceiling essentially becomes the floor.

2. When you set a maximum allowable rate of increase, you have an incentive to go right to it. That's because it may be denied in future years unless you budget for it in the planning year.

C. The recent enactment of the Health Care Consumer Protection and Awareness Act, in the main, represents a political response to the public's growing outrage with current health care costs.

1. It will be incumbent upon us, as advocates of free market competition, to effectively manage health care costs if we are to stave off further regulation.
2. Any doubts that the battle is over, in my view, are premature.

SLIDE #20
WHAT LIES AHEAD

VII. WHAT LIES AHEAD

A. Our diverse and changing environment, of course, makes it difficult to forecast with accuracy what lies ahead for us.

1. Despite this unpredictability, it is not a question as to whether we are going to change. The question is when, how much and in what way?

[OPTIONAL]: SLIDE # 20a (see attachment)

SLIDE #21

FACTORS FOR SUCCESS

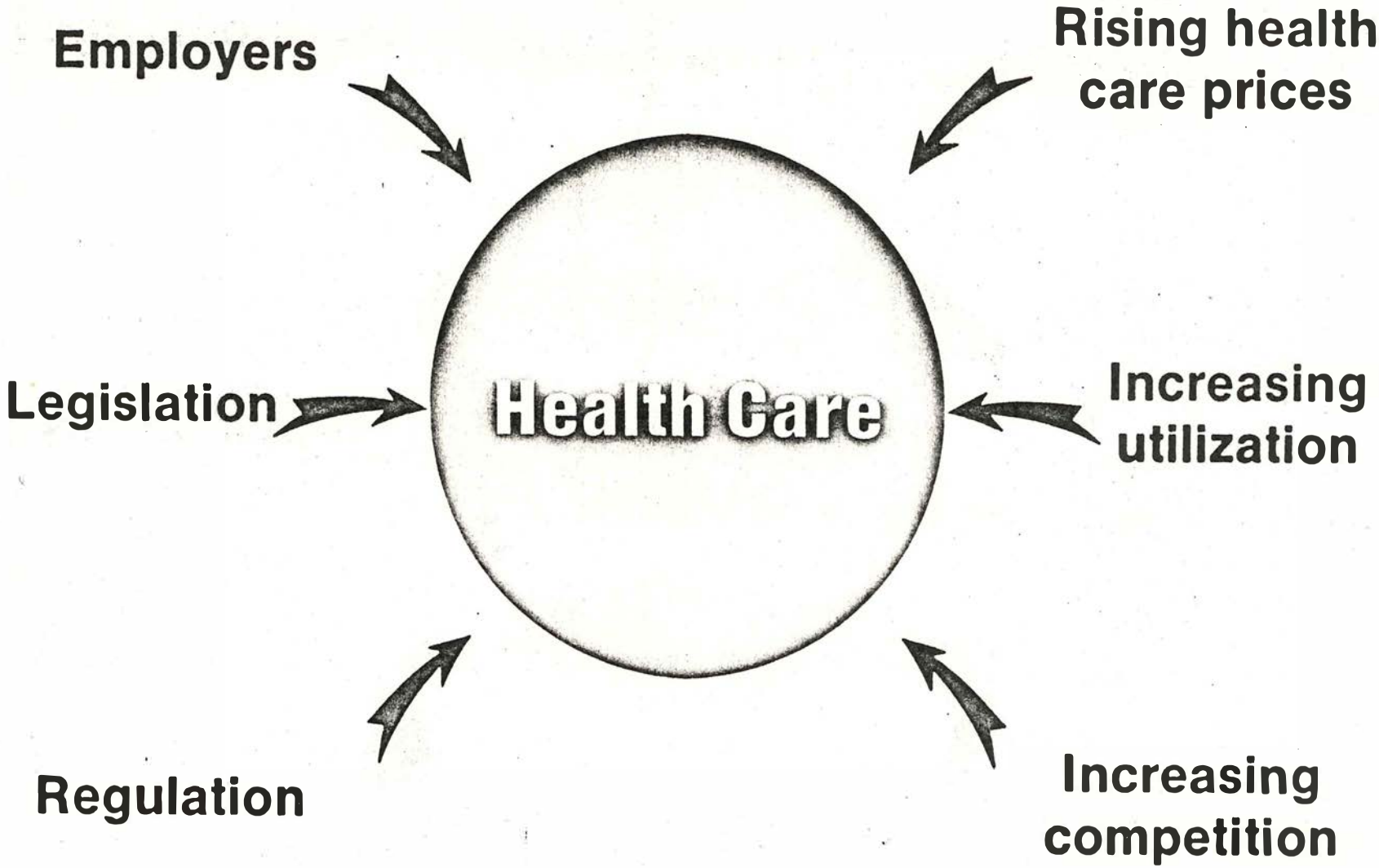
- o Flexibility to change
- o Risk-taking
- o Respond to market needs

2. As we position ourselves to continue playing a key role in health care in the eighties and beyond, flexibility, a willingness to take risks and responsiveness to market demand should enable us to successfully deliver quality products and service at reasonable cost.

SLIDE #22

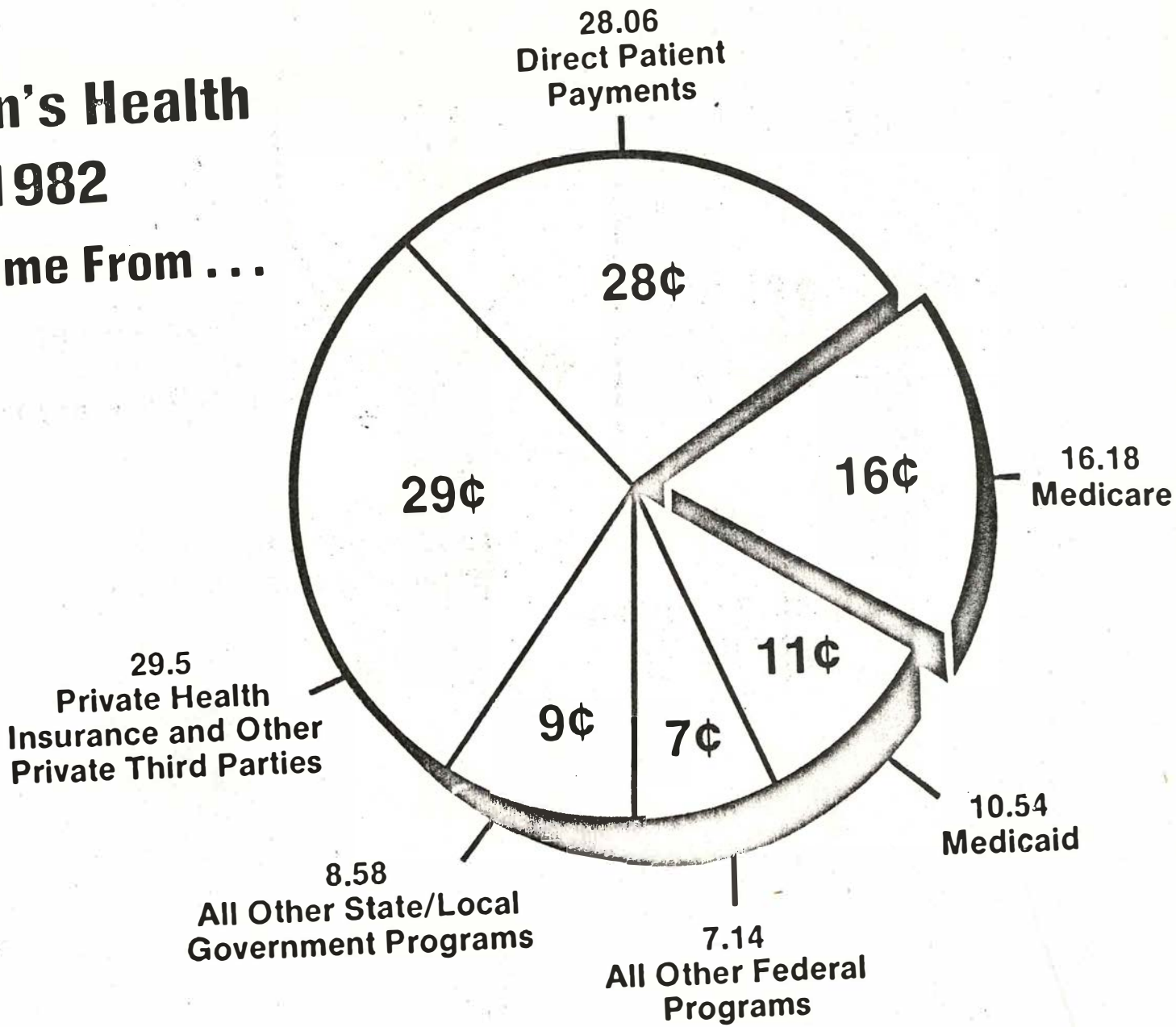
COST/VALUE SLIDE

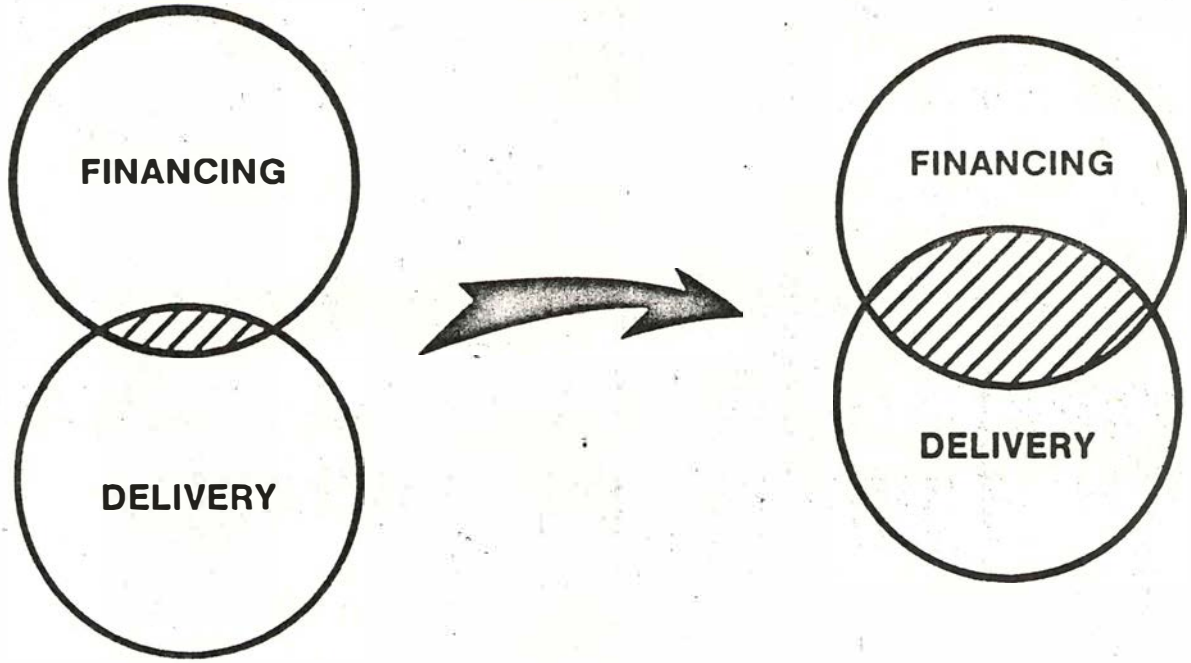
Thank you. I'd be happy to answer any questions.


Employers
Rising health care prices
Legislation
Health Care
Increasing utilization
Regulation
Increasing competition

The Nation's Health Dollar in 1982

Where it Came From . . .

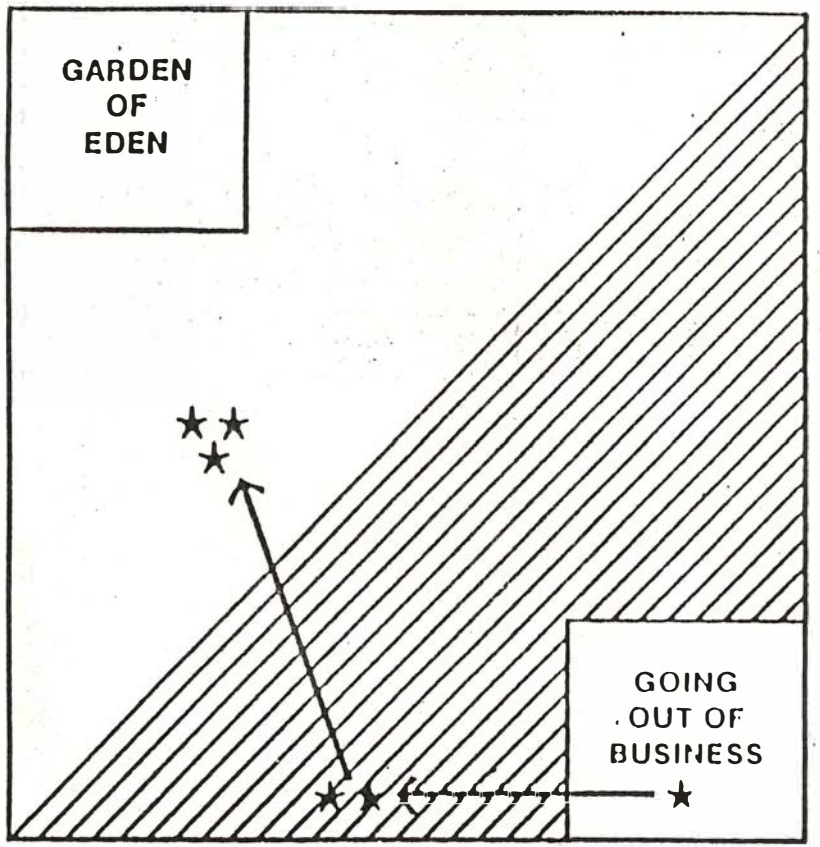




Blurring the Distinction Between Financing and Delivery of Health Care Services

RELATIVE VALUE

AS PERCEIVED BY THE CUSTOMER



South Florida Group Health, Inc.

- Dade County
- IPA Model
- BCBSF Affiliate, October 1982

Capital Health Plan

- Tallahassee
- Staff Model
- Operational, June 1982

. SLIDE # 20a

3 RULES OF STRATEGIC PLANNING

- o It's very difficult to plan
- o If you do complete a plan, you know it's going to be wrong, and
- o If it's right, don't ever let anyone forget it.